

METHODS OF INTERNAL ACCOUNTING FOR IOWA HIGH SCHOOLS
OF ONE HUNDRED OR LESS
STUDENTS

BY

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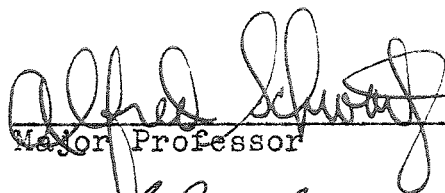
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TABLE OF CONTENTS

Chapter		Page
I.	INTRODUCTION.	1
II.	SOURCES OF FUNDS.	19
	Groups Contributing Toward Activity Funds	
	Funds Making Up Internal Accounts	
	Insufficient Funds	
III.	USES OF FUNDS	30
	Activities for Which Expended	
	Expenditures Relative to Sources	
	Use of Surplus	
IV.	ACCOUNTING FOR FUNDS.	36
	Purposes for Accounting	
	Types of Accounting	
	General Recommendations	
	Jurisdiction and Control by the State Department	
	Advocated Method of Accounting	
	Specialized Accounts	
	Audits Required or Recommended	
V.	ACCOUNTING FOR SUPPLIES AND EQUIPMENT	77
	General Recommendations	
	Advocated Method of Accounting	
VI.	SUMMARY	84
	APPENDIX	88
	BIBLIOGRAPHY	101

CHAPTER I

INTRODUCTION

The general administrative field of accounting and auditing has long presented a problem to administrators and has been a stumbling block for many. "Perfection in education is still far from realization."¹ In the State of Iowa the accounting for funds has been recognized as a problem, and procedures and code have been devised to aid superintendents and principals in reporting the allocation of funds to the boards of education and the public, but in the field of internal accounting administrators have not fared as well. They have been left to their own devices to set up their systems of accounting for internal funds, supplies, and equipment, and for many administrators these devices have been inadequate to fill the needs of the situation. This need has become so urgent that the Iowa State Department of Public Instruction published in 1948 a special circular dealing with this problem, but even this is indefinite, suggestive, and incomplete.²

¹Ward G. Reeder, The Business Administration of a School System, p. 5. Boston: Ginn and Co., 1929.

²"Management of Revolving Accounts," Division of Administration and Finance, Accounting Circular No. 9. Des Moines: Department of Public Instruction, 1948 (revised), (mimeographed).

One of the most urgent needs in the business administration of the schools today is an efficient accounting procedure. . . . Whether in industry or in public affairs, accurate and significant statistics make or unmake an administration. Opinions and vague estimates carry little weight in arguments with clear-thinking individuals.¹

Engelhardt states, "It is in the small school systems that better business procedures are needed most urgently, and one cannot expect much improvement except under the leadership of the superintendent of schools."²

Holmgren sought information on recommendations for accounting procedures from the forty-eight states and reports that "Provisions for the accounting of extra- or co-curricular activity financial transactions are contained in the materials received from only three of the forty-eight state departments of education."³ It is little wonder that internal accounting presents such a problem today when the state departments of the states fail to assume any initiative in developing sound business procedures to adequately protect the taxpayers' money. The extent of state control over the internal finances of a school district may be illustrated by the following excerpts from the Iowa school laws:

¹Reeder, op. cit., pp. 91-94.

²Fred Engelhardt, Public School Organization and Administration, p. 460. Boston: Ginn and Co., 1931.

³Marvin E. Holmgren, "State Public School Financial Accounting Procedures." Unpublished Doctor's thesis, Department of Education, University of Minnesota, 1949, 285.

8.7 Accounting. The comptroller may at any time require any person receiving money, securities, or property belonging to the state, or having the management, disbursement, or other disposition of the same, an account of which is kept in his office, to render statements thereof and information in reference thereto.¹

To clarify this, reference may be made to a previous section concerned with defining the terms:

8.2 Definitions. . . . 2. "State funds" means any and all moneys, appropriated by the legislature, or money collected by or for the state, or an agency thereof, pursuant to authority granted by any of its laws.²

Since the school is an agent of the state, "In legal theory the public school is a state institution," these two laws imply the necessity for school administrators to maintain some form of financial accounting so that the previously mentioned statement may be furnished upon demand; however, a perusal shows no law specifically stating that accounting procedures be followed as in the sense of directives such as those concerning tax funds.³ In addition, Pittenger says:

One needs only a cursory acquaintance with current school affairs, especially in the smaller districts, to realize that the standards of financial management which are most respected in the business world are not

¹R. A. Griffin and Jessie M. Parker, School Laws of Iowa, p. 7. Des Moines: State of Iowa, 1951.

²Ibid, p. 5.

³Newton Edwards, The Courts and the Public Schools, p. 1. Chicago: The University of Chicago Press, 1949.

always put into effect by school boards and superintendents. Advance planning of school expenditures with reference to income is perhaps the exception rather than the rule.¹

It is further stated that:

The fiscal organization and business practice, including financial accounting internally, particularly with respect to extra-curricular funds, is even more unfortunate at present than is the over-all management and general accounting of school funds. . . . The over-all theme . . . is that internal accounting is done very poorly and that a centralized organization utilizing appropriate documents of original entry and appropriate accounting systems are just as necessary in the efficient management of internal funds as is the case with general funds.²

It continues:

There is also much evidence that many financial records kept in schools today are of little value.³

In Stout's doctor's thesis is found:

Through carelessness or lack of integrity, thousands of dollars of these funds have disappeared annually. While some activities have gone bankrupt, other organizations that have been more prosperous have squandered their balances. To make matters worse, young students have sometimes yielded to the temptation to which they have been constantly subjected and misappropriated funds. Thus students have

¹Benjamin F. Pittenger, An Introduction to Public School Finance, p. 37. Boston: Houghton Mifflin Co., 1925.

²"Some Problems and Issues in Public School Finance." Unpublished report prepared for the Public Educational Finance Committee of the National Citizens Committee for the Public Schools by a committee authorized by the National Conference of Professors of Educational Administration, 1951, 40.

³Ibid., p. 42.

gone from such schools trained in lax and irresponsible methods of handling public funds.¹

More has been said by Jolley:

The . . . system of handling organization funds in high schools is very unbusiness-like and inefficient, in that there are a dozen or more school bank accounts where there might be one, and a dozen or more books to audit at the end of the year when there might be one set. In practice many of these accounts are not audited at all--there is no system of receipts, no systematic way of filing bills which are paid or to be paid by the high school to companies in the city or out of the city, no ledgers or cash books, and there is no one time at which the books of all the school activities are up-to-date.²

Stout presents the additional information:

Meyer and Eddleman tell of an investigation which revealed that out of twenty organizations in a certain school, at least five had kept their accounts on slips of paper and that part of them were lost, thus making accounting impossible. They also tell of another investigator reporting that not more than half of two-thirds of the treasurers kept their money in the bank. The rest of them kept it in cigar boxes or in bureau drawers at home. One boy carried his to and from school in a baking powder can. Others carried their money about in their pockets or left it in their lockers for days at a time.³

The further account is related by Stout:

Yet hardly a year goes by when one does not learn of high school administrators getting into serious difficulties because they have not had a good program for the

¹Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools In Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 5.

²L. F. Jolley, "An Accounting System in High School Organizations," School Review, XXXI (February, 1923), 136.

³H. D. Meyer and S. M. Eddleman, Financing Extra-Curricular Activities, pp. 39-62. New York: A. S. Barnes and Company, 1929, cited by Stout, op. cit., p. 11.

administration of their activity moneys. For example, in the fall of 1941 a principal who had long been regarded by his associates as one of the best in the profession, left the large high school where he had served for several years to accept a better position. Following his departure the activity fund of the school was audited. Because some money could not be accounted for, he was brought back to the city where he had been a leader, indicted and tried in court. Even though he was found "not guilty," this experience was exceedingly harmful to him and to the school. Because they did not have sound systems of handling activity funds, two well-known midwestern administrators have been professionally ruined in recent years. One of these was accused of stealing approximately \$2000 from the school's activity fund. He was arrested, tried, found guilty and sentenced to jail until he was able to raise the amount of money he was accused of taking. This man had many friends who believed him innocent, but he did not have the necessary records to show where the money had gone. The other administrator suddenly left his city, and no one knew where he had gone. After his departure the activity funds were audited and some money could not be accounted for. Immediately the departed man was accused of absconding with the missing amount, when perhaps the worst he had done was to be careless in keeping accurate accounts.¹

Speaking of another particular school system:

Students have been allowed to handle funds without supervision or restriction in any form. Student body treasurers have been allowed to accept all receipts and certify all expenditures. Few members of the system knew where money came from or for what purposes it was spent. Accounts were scattered among fifteen or twenty different treasurers which of course meant duplication of spending, no system of reporting, in fact, no organization whatsoever. It was not unusual to find obligations made and left unpaid, causing merchants to hesitate to co-operate with the school. In many instances organization funds were misappropriated by student treasurers, the saddest of all the evil results of loosely managed financial systems.²

¹Stout, op. cit., pp. 16-17.

²A. C. Roberts and R. M. Draper, Extra-Class and Intramural Activities in High School, p. 447. Boston: D. C. Heath and Company, 1928, cited by Ibid., p. 134.

If it is only for the motive of self-protection, the superintendent should recognize the problem presented by the sole responsibility for public money and desire to practice proper accounting procedures, so there can be no question as to his integrity. "When the magnitude and complexity of the school system are contemplated, the thousand opportunities for waste and inefficiency in the administration of the system become apparent."¹ "The use of up-to-date business methods in school financial transactions is required, not only for the welfare of the school, but also for the personal welfare of the superintendent."² Further emphasis is given this statement by Terry:

Experienced principals have met with cases of irresponsibility, incompetence, and dishonesty on the part of pupils and occasionally of teachers in the handling of these funds. Further details are not needed to point out the necessity of devising business-like methods that will prevent the waste of money, make certain that funds are used as intended, protect the reputations of those in authority, and inspire confidence in all concerned.³

Reeder made the statement:

Education is not only the most important business of a state, but, by facts and figures it is the largest business of a state. The size of this business is more fully comprehended when it is noted that, in comparison with

¹Reeder, op. cit., p. 4.

²Pittenger, op. cit., p. 35.

³P. W. Terry, Extra-Curricular Activities in the Junior High School, p. 330. Baltimore: Warwick and York, 1926, cited by Stout, op. cit., p. 8.

other public businesses, far more money is spent in carrying on education, far more people are employed in it, and far more people are affected, either directly or indirectly, by it.¹

In large school systems, several hundred thousand, or several million dollars of such funds are collected and paid out annually; in fact, one large school will handle annually thousands of dollars of internal funds. Unless an efficient procedure for the collection, the custody, and the spending of such funds has been established by school officials, and unless that procedure is followed, there is danger that funds may be lost. Moreover, there is danger that innocent school officials and school employees will be accused by scandal-mongers of being "grafters."²

Even though a problem is recognized, its importance should be determined, for if it is of relatively minor importance, the time spent in its study and solution may not be warranted, and better use of the time may be made. For this reason the following portion of the study was made.

In order to comprehend the scope of internal accounting, figures were analyzed from Stout's study with only those pertaining to small schools being used. In addition to the information given in table one, it was reported that there were a total of two hundred small schools responding with a total amount of \$217,633.63 being spent. The mean amount expended by these small schools, defined as those with enrollments under one hundred students, was \$806.20.³

¹Reeder, op. cit., p. 1.

²Research Problems in School Finance, p. 63. Washington: American Council on Education, 1933.

³Stout, op. cit., pp. 29-30.

TABLE 1

THE AMOUNT OF MONEY SPENT
ON EXTRA-CLASS ACTIVITIES BY IOWA HIGH SCHOOLS
DURING THE SCHOOL YEAR 1941-1942*

Percentiles	Amount
10	\$1,556.78
20	1,207.11
30	950.00
40	809.20
50	633.90
60	511.87
70	421.12
80	300.27
90	200.29

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 29.

The amount of funds supporting the extra-class activities is further emphasized by tables two, three, and four from Stout's study.

TABLE 2

THE PER-PUPIL COST
OF EXTRA-CLASS ACTIVITIES IN IOWA HIGH SCHOOLS
DURING THE SCHOOL YEAR 1941-1942*

Percentiles	Amount
10	\$28.18
20	20.92
30	16.26
40	13.45
50	11.31
60	9.46
70	7.61
80	5.38
90	4.26

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 33.

TABLE 3

THE RANGE OF INCOME DERIVED
BY IOWA HIGH SCHOOLS FROM EXTRA-CLASS ACTIVITIES
DURING THE SCHOOL YEAR 1941-1942*

Percentiles	Amount
10	\$1,622.70
20	1,205.46
30	1,005.00
40	839.77
50	644.39
60	550.00
70	466.35
80	324.78
90	240.00

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 35.

TABLE 4

THE RANGE OF BALANCES LEFT
IN THE ACTIVITY FUND OF IOWA HIGH SCHOOLS
AT THE END OF THE SCHOOL YEAR 1941-1942*

Percentiles	Amount
10	\$202.39
20	157.28
30	109.54
40	90.00
50	67.63
60	50.21
70	40.00
80	24.03
90	8.65

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools In Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 37.

In table four there were two hundred sixty-seven schools responding showing a total balance of \$27,831.80 with a mean balance of \$140.24.¹

The preceding figures may not seem too impressive, but when it is considered that many small schools are spending through their internal accounts additional funds amounting to as much as one third of the appropriated budget, the magnitude of internal finances is realized. Even though in some schools the amount is small in comparison with others, both the students and the public have a right to demand that these internal funds be handled as well and efficiently as the law demands the handling of tax moneys.

Reeder has said:

During recent years extra-classroom activities have secured an important place in school programs everywhere. Most of these activities are revenue-producing and revenue-spending. In fact, in the large cities they frequently require the expenditure of large sums of money, often running into thousands of dollars annually.

In spite of the fact that practically all such activities are financed by student fees and contributions and not by public funds, school officials should assume the responsibility of supervising their accounts. In order that the accounts may be properly controlled a definite accounting procedure should be established. Without definite accounting a legitimate expenditure of the funds cannot be assured, the reputations of individuals who handle the funds are apt to be besmirched, and policies for the administration of the various activities cannot be properly made and executed.²

As Reeder has said, the co-curricular program serves

¹Ibid., p. 38.

²Reeder, op. cit., pp. 117-118.

a very important place in today's total educational program, but it also presents new problems for teachers and administrators including:

Accounting for the funds for these various internal activities becomes an important administrative problem. If income and expenditures pertaining to them are not accounted for in a business-like manner it is difficult to determine the extent to which policies are carried out or whether the plans for operating the internal affairs of the several schools of a system are desirable or economical.¹

Engelhardt emphasizes the importance of the internal accounting problem in a summarizing statement:

Financial control, accounting control, and administrative control are so intricately interwoven that the ultimate success of a school system depends upon how well and how fully the accounting procedures are developed and how useful the financial reports are to those responsible. Until recently educational administration was little concerned in the accounting practices or records of a school system. It has taken some time to convince school boards that accounting practices and the educational aspects of a local school system are closely interrelated. Progress in every enterprise has been associated with the realization that a historical record of business transactions does not suffice, and that the accounts which do not contribute to the improvement of management have little value.

It is now generally agreed that in any enterprise the fundamental purpose of accounting is to supply those responsible for the management with the facts essential to intelligent and efficient administration.

Therefore, the management, when considering the educational program and the financial plan proposed, must not only have a statistical analysis of the factors that have entered into the current fiscal affairs, but must also have such data as will show how these factors were related in the past to the changes which brought about current financial conditions. . . . Through the proper classification of financial transactions an

¹Engelhardt, op. cit., p. 503.

intelligent presentation of the facts regarding business procedures is made possible.¹

With the increase in educational costs and greater demands for its support being made upon the taxpayer, better and more complete and comprehensive accounting procedures must be utilized.

One needs only a cursory acquaintance with current school affairs, especially in the smaller districts, to realize that the standards of financial management which are most respected in the business world are not always put into effect by school boards and superintendents. Advance planning of school expenditures with reference to income is perhaps the exception rather than the rule.²

Not infrequently, perhaps, the introduction of better business management into the affairs of a school system will remove the need for added funds, by making available for proposed new services money formerly wasted upon the old ones.³

To emphasize the idea:

There is widespread need for a keen realization of the potential values of appropriated and adequate financial records of educational programs. Financial accounting systems for schools should make it possible to analyze school receipts in terms of financial ability, social emphasis on education as shown by a comparison of school funds with tax levies and appropriations for other public services, and relative financial responsibilities for the schools assumed by local community, county, state, and federal governments.

While . . . there is no profit in schools the necessity for a clear-cut determination of the amounts of money being spent for various aspects of an educational program is essential. Also it is equally essential that both those responsible for the administration of public education and the supporting public know whether full

¹Ibid., pp. 469-470.

²Pittenger, op. cit., p. 37.

³Ibid., p. 31.

value is being received for the money spent for schools.¹

All phases of the public schools should serve an educational purpose. If they do not, they should be examined so that they will. Considering the importance of good financial practices from this point of view, McKown and Horner state:

The present demand for efficiency in educational affairs, together with the necessity for a closer and more effective organization of extra-curricular activities, has brought with it a most sensible demand that these activities and their finances be handled in accordance with sound business principles. . . . The very best method of handling money is the least we should expect our students to participate in or to witness. Careless handling of public or organization money may lead to careless handling of individual money, or a contempt for the school allowing such carelessness.²

Sounding a new note in the importance of internal accounting, Holmgren states:

. . . it would appear to be the moral responsibility of all school boards or school administrators to provide adequate protection for teachers, students, and parents from misappropriations that can result when these funds are not properly handled. For these reasons, leadership must be introduced in the development of proper internal accounting procedures and once again, the state appears to be the best level at which that leadership can be introduced.³

¹"Some Problems and Issues in Public School Finance," op. cit., pp. 41-42.

²H. C. McKown and M. B. Horner, Financial Administration of Extra-Curricular Activities, Part II, p. 111. 25th Yearbook of the National Society for the Study of Education, 1925, cited by Stout, op. cit., p. 7.

³Holmgren, op. cit., p. 294.

This study has been made for several reasons. The primary reason was a selfish one in that it was made to satisfy the writer's desire to know more about the controversial "activity fund" about which much has been heard that has not been complimentary to public school administrators. Secondly, there was found to be relatively little organized information concerning internal accounts. Most books in the field of educational finance stated there was an urgent need to revise our present methods of internal accounting and left the subject with no more information. Thirdly, it is desired that this study will be of help to young administrators entering the field and desiring to set up a system for their internal accounts. It is further hoped that by this study many of the questions in the techniques of the implementation and procedures followed in accounting for internal accounts will be answered to the satisfaction of both superintendents just entering the profession as administrators and superintendents who have been in the profession for a period of time but have lacked the information heretoforth presented.

An attempt has been made to devise a system sufficiently flexible to allow its adaptation to many and varied situations. Although the report is limited to high schools, the techniques can be employed in junior high and elementary schools with, of course, modifications to the distinct situations. This is done to allow full coverage of the

problem where it exists with extensive funds over which most controversy arises. It is further hoped that indirect results will be a better comprehension of the total administrative process with its associated educational benefits.

It was chosen to limit it to small schools for several reasons:

1. The large number of small schools in Iowa.
2. Young superintendents entering the field usually enter the smaller schools.
3. Small schools have not advanced to the point of adequate internal accounting procedures while the larger schools have already met the problem.
4. Keep the study within the ability of the author.
5. Acquaint superintendents just entering the field with the records and their use in the process of accounting.

At this point it is well to come to some agreement as to the connotation of this study. Good defines accounting as "the art of recording, classifying, and summarizing, in a significant manner and in terms of money, transactions, and events that are, in part at least, of a financial character and interpreting the results thereof."¹ Since the study is both financial and internal, further definition by Good of these two terms is as follows:

Accounting, financial: the classification and summarization of bookkeeping records for the purpose of

¹Carter V. Good, Dictionary of Education, p. 14.
New York: McGraw-Hill Book Company, Inc., 1945.

conducting, controlling, and interpreting the financial and business transactions of a school.

Accounting, internal: the recording of financial transactions in such a form as to supply all information needed for management purposes.¹

This definition fails to bring out the distinction between regular accounting and internal accounting. The definition immediately preceding may be modified to include moneys, supplies, materials, and equipment for which the superintendent or principal is the sole person responsible for their receipt and expenditure. The funds themselves are received from activities or practices which also necessitate their expenditure, and they do not find their appropriation in the tax roles of the district.

Financial accounting is one of the major phases of the entire sweep of business procedures. Financial accounting is the process of identifying all revenues with respect to source (either in terms of how raised, e. g., property tax; or taxing unit, e. g., national, state, county, or local school district) and the identification and allocation of disbursements and expenditures. Bookkeeping is the process of posting the results of accounting. Accounting and bookkeeping unfortunately are often confused.²

Fowlkes defines financial accounting as the "identification, classification, and allocation of business transactions."³

¹Ibid., p. 14.

²"Some Problems and Issues in Public School Finance," op. cit., p. 37.

³John G. Fowlkes, Principles and Practices of Financial Accounting for Schools, p. 1. Milwaukee: E. M. Hale and Co., 1934.

To summarize: It has been shown that a problem exists in the field of internal accounting in the administration of the public schools. The extent of the problem has been discussed and has been shown to be of much greater magnitude and importance than many administrators realize, otherwise more constructive efforts would have been contributed to the solution of the problem. It has been explained that the purpose of this study is to serve as a manual for administrators who are searching for some procedure by which their internal accounts may be accounted for and by which they may protect both these funds and themselves. Reasons for the limitations of the study were explained, and definitions were given for the major terms, accounting, financial accounting, internal accounting, which are the major concern of this study.

CHAPTER II

SOURCES OF FUNDS

Groups Contributing Toward Activity Funds

Considering the definition of internal funds, it is found that these funds consist of those which both produce and expend revenue; they expend the revenue which they produce. From the nature of the school, it can be realized that the groups which contribute to the fund which must be accounted for internally are many and varied. In most of the smaller schools the athletic program must be used to finance many of the activities which do not pay their own way. This suggests that the gate receipts from athletic events is the largest source of revenue to be considered in the internal accounts of the school. This is emphasized in Grange's study; however, the limitation to consider is that only thirty-two schools reported for this distribution.¹ (See table five.) It can also be seen from this table that there is a great variety of groups which contribute toward the activity fund in this sampling of thirty-two schools. Even though it may not be representative, it at least will give an

¹Harry L. Grange, "The Administration of the Activity Program in Iowa Secondary Schools In Cities with over Two Thousand Population." Unpublished Master's thesis, Department of Education, Drake University, 1942.

TABLE 5

PERCENTAGE OF FUNDS RECEIVED BY
VARIOUS ACTIVITIES IN SCHOOLS IN 1942*
(in Iowa)

(Schools)	Ath- letics	Music	Plays	For- en- sics	Student Council	Dances	Noon Movies	Annual	School Paper	Profes- sional Programs	Misc.
1	57.0	5.0	10.0	3.0		3.0					22.0
2	50.0	12.0	6.0					20.0	6.0	6.0	
3	60.0	18.0	12.0							10.0	
4	100.0										
5	70.0							20.0		10.0	
6	74.0	4.0	2.0	10.0				10.0			
7	94.0								6.0		
8	40.0	30.0	10.0							20.0	
9	50.0										50.0
10	40.0	10.0						16.0	8.0	10.0	16.0
11	48.0	6.0					12.0	8.0	17.0	5.0	4.0
12	45.0	20.0	5.0	5.0				20.0			5.0
13	55.0	15.0	10.0								20.0
14	50.0		10.0					20.0			20.0
15	50.0	15.0	10.0					10.0	5.0	5.0	5.0
16	50.0	15.0	5.0								30.0
17	69.0	3.0	15.0	3.0						5.0	5.0
18	40.0	20.0	20.0	10.0							10.0
19	50.0	25.0									25.0
20	60.0	20.0		10.0							10.0
21	78.0	5.0							5.0	12.0	
22	50.0	20.0		10.0					20.0		
23	50.0	25.0	25.0								
24	50.0	30.0		10.0							10.0
25	60.0	20.0						10.0		5.0	5.0
26	50.0	10.0	15.0		5.0				5.0	5.0	10.0
27	85.0		15.0								
28	50.0	10.0						30.0	5.0	5.0	
29	68.0	9.0	13.0						10.0		
30	23.0	7.0	7.0		12.0			37.0	5.0	9.0	
31	63.0								20.0		17.0
32	50.0	16.0	10.0	4.0					5.0	5.0	10.0
Av.	57.0	14.0	11.0	7.2	8.5	3.0	12.0	18.3	12.0	8.0	14.8

*Harry L. Grange, "The Administration of the Activity Program in Iowa Secondary Schools in Cities with over Two Thousand Population." Unpublished Master's thesis, Department of Education, Drake University, 1942, 18.

indication of the importance of athletics and music in the general support of school activities.

With the advent and increase in importance of the school hot lunch program, many more thousands of dollars have been brought under the control of the internal accounting system.

Although many of these funds are small, what McLeese has said concerning the money receipted for book rental may be stated about all small accounts:

In a large system this sum will be a considerable amount; but in a small system, such as the Hawkeye Public School, it will not be very large. However, a small sum must be as carefully accounted for as a larger one. The taxpayers of the district are entitled to a careful and accurate accounting of all money expended and received.¹

Fowlkes has given a partial list of school receipts which must be accounted for internally:

1. Band.
2. Dramatic productions.
3. Entertainments.
4. Forensics.
5. Glee club.
6. Orchestra.
7. School publications.
8. Baseball.

¹Bob McLeese, "The Development of a System of Accounting For the Book Rental Fund of the Hawkeye Public School." Unpublished Master's thesis, Drake University, 1944, 1.

9. Basketball.
10. Football.
11. Soccer.
12. Tennis.
13. Track.
14. Text books.
15. Supplies.
16. Lectures and entertainments.
17. Lunch Service.¹

In 1926 Wilds made a list of the "most common" sources of funds:

1. Student fees and assessments.
2. Membership dues.
3. Season ticket sales and gate receipts for athletic events.
4. Receipts from admission to plays, concerts, and entertainments.
5. Sale of publications and programs.
6. Sale of advertising space.
7. Receipts from cafeteria and school store.
8. Outside contributions.
9. Appropriation by the board of education from the general school fund.²

¹Fowlkes, op. cit., pp. 71-72.

²Elmer H. Wilds, Extra-Curricular Activities, p. 184.
New York: The Century Company, 1926.

In Cole's study made in 1938 is found a more extensive list:

1. Book rent.
2. Plays and entertainment.
3. Balance from previous years.
4. Athletics.
5. Sale of candy, ice cream, etc.
6. Advertisement, other than school papers.
7. School papers.
8. Parents' donations.
9. Teachers' donations.
10. Movies.
11. Sale of Magazines.
12. Miscellaneous.
13. Students' donations.
14. Suppers.
15. Library fees and fines.
16. Old hen sale.
17. Sale of seed.¹

Stout's later study (see table six) gives information more pertinent to Iowa.

¹Paul H. Cole, "The Money Raising Activities of the Public Schools of Albemarle County, Virginia." Unpublished Master's thesis, University of Virginia, 1938, 23, cited by Stout, op. cit., p. 42.

TABLE 6

PRINCIPAL SOURCES OF INCOME
FOR THE EXTRA-CLASS ACTIVITY PROGRAM IN IOWA HIGH SCHOOLS
DURING 1941-1942*

Sources	No.	Pct.
Gate receipts from programs, plays, lectures, debates, etc.	310	93
Receipts from athletic and field events	301	91
Sales of candy, soft drinks, etc.	260	78
Canvass of community by students for ticket sales	147	44
Sale of publications and advertising in same	150	45
Bazaars, fairs, and carnivals	158	48
Sale of scrap iron, papers, and other junk	124	37
Class assessments, fees, dues, etc.	91	27
General activity tickets	56	17
Special grants from board of education	51	15
Fines	19	6
Tag days	11	3
Exhibits of school work	15	5
Interest from invested funds	5	2
Number of schools responding	332	

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 47.

From these lists is seen a great deal of variation, with some of the methods of obtaining funds for the internal finances of the school suggesting the inadequate application of educational criteria to them:

1. Educational--If the method violates any educational principle or fails to give as great returns in educational value for the time and labor expended as some other method, then it should not be used.

2. Time--Too much time must not be required of teachers and students in carrying out a program. Those methods are most desirable which give a maximum return in dollars for a minimum number of hours spent in carrying them out as long as other criteria mentioned here are not violated.
3. Labor--Methods that do not require an excessive amount of labor should be chosen for labor costs time. A certain amount of labor is to be expected and desired, of course, but whenever class work must be slighted for an undesirable length of time, the method should be discarded.
4. Public approval--In many communities the school and its activities are continually putting on drives and campaigns to raise money for various purposes. In many cases the public is made to feel that it is being held-up and robbed, rather than that it is getting value received for its money, or that it is contributing to a worth while cause.¹

Perhaps the application of the first criterion alone would eliminate many of these methods of financing. The purpose of the schools is not to be a money-making institution but rather to provide educational services. When they begin to deviate from this primary objective, they cease to come under the classification of a school as they then infringe upon the responsibilities of other community agencies with whom they are supposed to cooperate.

Funds Making Up Internal Accounts

Various funds go into making up what is called the "activity fund" of a school. In ordinary usage the activity fund is synonymous with the internal account; however, the

¹Holmgren, op. cit., p. 49.

criteria suggested by Engelhardt and Engelhardt may be applied to differentiate between the two:

There are certain services maintained by schools, whose cost the pupil shares. . . . They are usually called internal services, and are differentiated from the extra-curricular activities in that they are not intended to contribute through pupil participation to the educational work of the school. The cafeteria, lunch room, and book room are the usual activities which come within this category.¹

When internal funds are mentioned it should be interpreted to include the commonly spoken of activity fund and reach even further to include the funds suggested immediately preceding.

To illustrate the receipts as they are classified in one school, the following report is given which also emphasizes the amount of funds handled:

TABLE 7
WOODWARD STUDENT ACTIVITIES FUND SUMMARY
June 30, 1951*

	Receipts
Athletics	\$ 2,904.78
Music	854.28
Class of 1951	794.95
Class of 1952	1,327.23
Book rent and shop fees	1,522.36
General fund, miscellaneous	259.94
Milk Sales	2,145.29
Yearbook	804.36
Miscellaneous	1,270.67
Insurance	320.00
Tournaments	1,729.30
Junior High School	<u>399.25</u>

*Portion of the summary report furnished to the Board of Education of Woodward Independent School District, Woodward, Iowa.

¹N. L. Engelhardt and Fred Engelhardt, Public School Business Administration, p. 795. New York: Bureau of Publications, Teachers College, Columbia University, 1927.

Insufficient Funds

As happens with many of the activities within the school, there are insufficient funds for maximum benefits to be obtained by the existence of these activities. When this situation exists, the educational advantages to the child are slighted while the children in other activities which more than pay their way are encouraged to adopt an attitude of luxury and lack of economy and thrift. Since these various activities exist for all of the students for an educational purpose, and, furthermore, since it is through the students that they are financed, their credits can be assimilated when all funds are placed in a central fund from which all activities are allowed to withdraw working capital under guidance. This surplus fund in the central depository, later described, could then be allocated to organizations with insufficient funds according to a planned budget which permits preliminary evaluation of the educational worth of the program and allows control over the finances of the organization so that the fund will remain on an actuarially sound basis.

Another philosophy concerning the problem is the one that, if it is not educational, it does not belong in the school program, and, if it is, it is worthy of tax support so that all students may benefit to the maximum.

The ideal situation as regards financing the extra-curricular program will exist when boards of education include the entire expense thereof in their regular

budgets and make all appropriations from the fund of the district. The logical situation will then exist when the expense of the non-classroom activities is included as a part of the community's liability for the training of its children.¹

Iowa, however, has failed to recognize this philosophy and by so doing has made it necessary that the students use their time and funds to finance the activities in which they participate unless it is possible to obtain sufficient funds from admission charges to events such as music, dramatics, and athletics; however, this does not finance the science club, stamp club, student council, etc., which often appeal to students not sufficiently talented in the arts to be recognized in competitive selections. Only by some system of central fund with central financing can all of the students be given equal opportunities to grow and develop to their maximum. Until the state recognizes the educational value of these internally financed activities and services, the schools must seek the assistance of the students in financing them.

Under the present Iowa school laws, which permit schools to purchase only for resale or rental to the students materials, supplies, and equipment used in activities covered in this study, the state department of education

¹Raymond B. Carey, "The Administration of the Finances of Extra-Curricular Activities." Unpublished Master's thesis, University of Nebraska, 1930, 81, cited by Stout, op. cit., p. 56.

advocates a system of revolving accounts. The board of education furnishes the funds for the purchase of these materials, supplies, or equipment which is sold or rented to the participants in the various activities or recipients of the various services. These receipts are then used to repay to the board of education the amount which was initially disbursed. Any surplus must come from the various methods previously discussed, but at the conclusion of the year, this surplus is turned back into the general fund of the school. This practice will, however, cause a dilemma in the fall when activities are in need of finances but find none available except through the repetition of loans from the board of education.¹

Fowlkes advises the use of revolving accounts which he calls "advancements" to the internal fund from the general fund. This advancement is to cover expenses before money is received in the fund. At the end of the year, this advanced money is transferred back to the general fund. In this way there has been no illegal use of the general fund, because the money is kept within the organization and is returned in full which means that the assets of the corporation have not been lessened by the act.²

¹"Management of Revolving Accounts," op. cit..

²Fowlkes, op. cit..

CHAPTER III

USES OF FUNDS

Activities For Which Expended

The internal funds of the school are used for many and varied purposes, but all should fulfill the criterion of educational worth and should be for an educational purpose or gain. As is practiced in most schools, the activities which bring in the money also expend the money, and those which have no method of finance do not expend money even though the educational gains may be greater than an activity which brings in large contributions to the internal accounts. By reviewing information previously presented in table five, it can be implied that the organizations which bring in finances also expend finances. The expenditure of funds may be classified according to use as (1) supplies, (2) equipment, (3) operation, (4) entertainment, (5) instruction, with the first generally expending the greatest amount. Under the subheading of equipment would be classified such items as athletic uniforms, musical instruments and uniforms, lights for dramatics, and other relatively permanent goods which cannot be purchased from the general fund of the school. Supplies would consist of record books, papers, first aid equipment for athletics, scenery, and other items which are

used up in a relatively short period of time. For a more complete definition of equipment and supplies, see Chapter Five. Under the classification of operation are such items as transportation of groups participating in the co-curricular program of the school, meals, cleaning of uniforms, and like expenses. Since school youngsters need recreation, it is well that they find wholesome entertainment under the supervision and guidance of the school. The social growth of the individual is greatly accelerated by guided entertainment within the school. This includes such events as the annual prom, dances, parties, and the like. Instruction consists of the professional assembly programs, imported talent, and lecturers.

Expenditures Relative to Sources

There are three possible sources of funds for the internal accounts: (1) funds allocated by the board of education, (2) funds received from school patrons through admission charges, (3) funds received from the students through various means of extortion. Considering these three general classifications along with the criterion of educational worth, there will be very little relationship between the first two sources and their expenditure, but the third classification shows a corresponding relationship between the source and the expenditure; as has been previously stated, the activities which bring in the money also expend the money.

The Board of Education as a source of funds has already been mentioned in Chapter Two. This viewpoint has been emphasized by Cubberly:

It is contended by some that any practice that includes a charge of attendance at public programs and games, where the main purpose is the development of pupil ability through activity is not logical or good policy. The educational programs in our democracy should be supported by taxation upon those who are able to pay.¹

If this type of financing would be adopted in Iowa, there would be little concern over the relationship between sources and expenditures, but as Stout has pointed out from section 3832.1 of the Iowa Code which provides for a uniform system of accounting for school district funds:

This system recognized only two funds for all school districts--general and school house. While these funds provide a place for putting the income from activities, they are not used by the high schools; for once the money is deposited, it cannot be legally expended from them for activities such as inter-scholastic athletics. The management of these funds has been, therefore, extra-legal in our state. Furthermore, no plan has been devised and promoted by our state department to unify the practices of the schools in our state along desirable lines. In this area we have had indeed "local control."²

This first source, therefore, seems to be far from realization. The second source, mentioned above, is another point of conflict when it comes time to spend what has been earned. The general practice as is evident from table eight is

¹ Stout, op. cit., p. 56.

² Ibid., p. 18.

to allot the receipts to the activities which brought in the receipts.

TABLE 8

WOODWARD STUDENT ACTIVITIES FUND SUMMARY

June 30, 1951*
(Woodward, Iowa)

Activity	Receipts	Disbursements
Athletics	\$ 2,904.78	\$ 2,610.37
Music	854.28	613.87
Class of 1951	794.95	742.25
Class of 1952	1,327.23	1,364.72
Book Rent and shop fees	1,522.36	1,522.36
General Fund, miscellaneous	259.94	259.94
Milk sales	2,145.29	2,013.25
Yearbook	804.36	659.82
Miscellaneous	1,270.67	1,915.12
Insurance	320.00	320.00
Tournaments	1,729.30	1,524.58
Junior High School	399.25	299.81
Total	\$14,332.41	\$13,846.09

*Portion of the summary report furnished to the Board of Education of Woodward Independent School District.

If they cannot spend or do not need to spend all that was received, it is carried over as a surplus. Likewise, if they spend more than their receipts, that, too, is carried over as a deficit, and that particular activity must make it up the succeeding year. Under this policy it can readily be seen that those activities which have no spectator appeal will suffer even though their educational value might be greater than those activities which possess a great deal of appeal for spectators.

One of the important problems of the school then, is that of making an equitable distribution of funds among the activities so that all will have enough to operate on and at the same time be satisfied with what is given them. Equity is not used here in the sense of equality but rather in the sense of fairness and justice. It is impossible to distribute funds equally among all activities and at the same time be fair and just to all, because some require larger amounts of money for operation than others.¹

The third source of funds is probably the most controversial, for, again, if it is of educational value, it should be tax supported and not require the student to support the program financially in our free public schools. In our modern educational systems, the students should realize the maximum benefits possible under as ideal a situation as it is possible to devise. Better methods are known, but the powers of control in education are unwilling to permit these maximum benefits to be transmitted to the students. Furthermore, a higher morale must be built among the students before they permit money they raised for their purpose, even though they have a surplus, to be used for the benefits of others who are less fortunate than they. This disadvantage, along with that of student donations or student participation in money raising activities which do not meet the criteria mentioned in Chapter Two, would be eliminated by tax support. The educational advantages and practices and controls over this or other procedures will be discussed later.

¹Stout, op. cit., p. 98.

Use of Surplus

At the present time surplus is carried from year to year in the activity that builds up that surplus. Like treatment is given to deficits. And similar treatment is given those activities which have neither surplus nor deficit; in other words, are not permitted or unable to have because of no source of funds for financial accounts. Those activities which develop a large surplus are permitted unnecessary expenditures, expenditures which could be minimized or done away with entirely. These expenditures are of the type which do not add materially to the educational benefit to be derived from the activity or materially benefit the student. In the other extreme, it may be conceived that the carrying of a deficit which the students must make up seriously hampers the educational benefit to be derived from that particular activity, and in some activities it may seriously endanger the health and physical well-being of the child.

These disadvantages may be eliminated by a system of a central treasury, and all payments made from it, and all surplus reverted back to this central depository. Further, by a system of this type there would be no surplus except on paper for means of accounting, and these would be immediately transferred into the general internal account. This particular plan will be developed at length in the succeeding chapter.

CHAPTER IV

ACCOUNTING FOR FUNDS

Purposes for Accounting

Any method of accounting should fulfill certain requirements and criteria according to advocated accounting procedures. They should be (1) simple, (2) adequate, and (3) standardized as far as practicable. These three criteria are emphasized and modified by a report for the Public Education Finance Committee of the National Citizens Committee for the Public Schools:

It would seem that the following six factors should be characteristic of financial accounting systems for schools: (1) revealing; (2) simple; (3) adequate; (4) flexible; (5) efficient; and (6) compatible.¹

However, analysis of these six factors indicates that they are all included in a broad interpretation of the three previously mentioned. Under these criteria the following functions should be realized:

1. It should serve all of the ordinary business purposes of financial bookkeeping, such as restricting expenditures to income, protecting responsible officers from charges of carelessness or speculation, and keeping up with the business generally.

¹"Some Problems and Issues in Public School Finance," op. cit., p. 42.

2. As detailed financial record of each fiscal period, it should provide the information necessary for drafting budgetary plans for each succeeding period.
3. By making possible the balancing of expenditures against the budgetary appropriations at any time, it should reveal unanticipated tendencies in costs, and inspire the necessary revisions of the budget.
4. The accounting system of any school should make possible a comparison of expenditures and costs in that school with expenditures and costs in other schools. It should also be such that its data can be used in connection with data obtained from other systems, in scientific studies of educational expenditures and in efforts to establish expenditure norms.
5. It should be such as to enable the school authorities to approach the school community effectively in explanation of their stewardship, and in their efforts to secure for the schools more generous support.
6. Finally, the accounting system should provide, readily and accurately, the data necessary for making reports to central school authorities--county, state, or national--according to the prescribed forms for such reports.¹

Stout has modified these functions even further:

1. It will be simple enough so that it will be easy to operate.
2. Complex enough to care for all accounts adequately.
3. Flexible enough to adjust to changing conditions and situations.
4. Standardize the practices through the school.
5. Practicable plan, and workable to the extent that it meets every need.

¹Pittenger, op. cit., pp. 129-130.

6. Popular enough to receive wholehearted support of teachers and student body.
7. Adapt itself easily to cooperation.
8. Have elements that demand a compliment of good business methods from all instructors.¹

Pittenger goes on to enumerate the essential parts of an efficient accounting system:

1. Facts of the growing--or declining--assets and liabilities.
2. Current income and expenditures.²

He also states that "income is generally simple and is classified" but that "expenditures is more complex" and consists of four essential parts or types of records:

1. Original records involving expenditure of funds
 - a. For auditing
 - b. Answer derogatory challenges
2. Day-book or journal
 - a. Guide to original record files
 - b. Basis from which to post the regular ledger accounts
 - c. May be omitted in relatively small schools--then post to ledger directly from original records of financial transactions
3. Classified ledger record
 - a. Most important
 - b. Reveal amount expended and amount remaining of all budgetary items
4. Periodical reports
 - a. Balance-sheet
 - b. Sets forth the current financial situation³

¹Stout, op. cit., p. 136.

²Pittenger, op. cit., p. 133.

³Ibid., pp. 133-134.

Restating this in a little different form and words, it can be said:

The financial accounting systems for schools should furnish (1) an historical record of receipts and expenditures, (2) a basis for evaluating the faithfulness of stewardship, and (3) a partial basis for both financial and educational management with respect to budget preparation, control, cost analysis and reporting.

The function of a school accounting system is to insure the prompt and accurate recording of all financial transactions and thereby provide a complete record of all business transactions, and thus prevent losses or errors which might occur because of inadequate records, poor methods, or carelessness. The financial records should serve as a basis for the preparation of financial operation and conditions, which statements in turn should serve as a partial basis for the preparation of budgets, . . . and the evaluation of business management as revealed by the financial picture.

A good financial accounting system will furnish only usable and valuable information. A financial accounting system which demands the posting of too many facts will prove just as inefficient as a system which provides too few facts.¹

Financial accounting systems for schools should be flexible and should shift in terms of the changes and shifts in educational programs.

Types of Accounting

Because of the criteria to be met in accounting systems and the lack of consideration of them in accounting procedures, this thesis is written. There are three general methods of financial control being practiced in the schools: (1) the paternalistic method which consists of arbitrary

¹"Some Problems and Issues in Public School Finance," op. cit., p. 42.

control of funds by administrator, faculty representative, or designated student representative but with minimum participation of students in general; (2) laissez-faire method which offers complete freedom to the students to raise and spend money as they see fit; (3) the democratic method which calls for an interdependent cooperation of all activities in the school and recognition and practice of equity by all groups. It might be added here that the laissez-faire method has no need for an accounting system.

Another classification may be suggested in the decentralized or centralized plans. The decentralized plan is somewhat similar to the laissez-faire type in which each activity has its own accounting procedure and earns and spends money as it pleases. The centralized plan, which permits greater practical student education, has all funds handled by a central treasurer with centralized control but not necessarily employing arbitrary methods.

It is possible for some of these methods to operate under a budget system in which each activity presents a budget showing expected receipts and expenditures.

All of the above methods of accounting are being practiced in varying degrees and combinations or modifications in schools today; however, in the more progressive schools is found the trend toward the more centralized system with student participation. They recognize the

educational opportunities inherent in the centralized systems.

In accounting, in general, there are two systems, the single entry and the double entry. In a study by Holmgren of the eleven accounting handbooks issued by state departments of education, out of the forty-eight states he found the information given here in table nine.

TABLE 9

SYSTEM OF BOOKKEEPING USED IN THE
ELEVEN ACCOUNTING HANDBOOKS*

Type of System	Frequency
Single entry	11
Double entry	0

*Marvin E. Holmgren, "State Public School Financial Accounting Procedures." Unpublished Doctor's thesis, Department of Education, University of Minnesota, 1949, 111.

"... the reasons for the discontinuation of the double entry system were that it was too complicated and that it involved too many entries for efficient handling by public school officials."¹

Table ten presents an additional analysis of accounting plans Holmgren found.

Within the scope of these two systems, there are three types of accounting which could be adopted.

¹Holmgren, op. cit., p. 194.

TABLE 10

SYSTEM OF BOOKKEEPING USED IN THE
STATE PUBLIC SCHOOL FINANCIAL ACCOUNTING PLANS
OF THE FORTY-EIGHT STATES*

Type of System	Frequency
Single entry	47
Double entry	0
Both single and double entry	1

*Marvin E. Holmgren, "State Public School Financial Accounting Procedures," Unpublished Doctor's thesis, Department of Education, University of Minnesota, 1949, 113.

Cash basis--This type gives consideration only to actual amounts of income and expenditures, and deferred payments, receipts due, short-term loans are not taken into account.

Accrual basis--This type permits accounting for all assets, liabilities, accounts receivable, accounts payable, accrued items, deferred items. Depreciation, imputed interest, losses on bad debts, values of inventories affected by market conditions, etc., are taken into account.

Income-and-expenditure basis--This basis of accounting utilizes the proper recording of those values which will eventually lead to a cash receipt or expenditure. Property ownership, capital liabilities, depreciation of fixed assets are disregarded because they will not lead directly to a cash receipt or expenditure.

Modified accrual basis--This type which is a modification of the accrual type of accounting is peculiarly

adopted to institutional accounting. It is superior to the cash basis because of the provision made for uncollected assets and unpaid liabilities.

In Holmgren's survey of the forty-eight states the information listed in table eleven was found.

TABLE 11

BASIS FOR ACCOUNTING USED
IN THE FORTY-EIGHT STATE PUBLIC SCHOOL
FINANCIAL ACCOUNTING SYSTEMS*

Basis	Frequency
Cash	39
Accrual	0
Income-and-expenditure.....	0
Modified accrual	9

*Marvin E. Holmgren, "State Public School Financial Accounting Procedures." Unpublished Doctor's thesis, Department of Education, University of Minnesota, 1949, 196.

Applying a slightly different approach to this problem, there are three primary systems of accounting which incorporate much of what has already been discussed. The triplicate system incorporates a bank within the school with activity treasurers, auditor, cashier, and activity sponsors as officers of this bank.

The responsibilities of the activity treasurer are to make and sign all orders in triplicate for his organization. The distribution of these triplicate copies will be shown later. The treasurer will take all orders to the school bank and deliver all checks to the payees leaving the itemized,

receipted bill with the auditor. He will file all orders and forms for his particular organization, keep a cash book showing the amounts of money received and expended, and receipt all money received and deposit it in the school bank. In addition, the treasurer will check the monthly statement against his records to see that both are correct.

The cashier works in the bank and receives all of the money from the various school organizations and deposits it in the approved depository daily. When the money is deposited by the various treasurers, he checks the deposit slips, stamping and countersigning them after he has assured himself that they are correct. Since they are made out in triplicate, he keeps one, returns one to the treasurer, and sends one on to the auditor. This same procedure is followed with all orders. The cashier also delivers all checks to the various treasurers who in turn deliver them to the payee. The only records that the cashier keeps are for his own protection and need consist of only a control ledger sheet on which is entered a record of all receipts and expenditures.

The auditor keeps all of the records of the school bank which, essentially, are the records of the internal accounts. His original records, in part, consist of the deposit slips and orders which have been delivered to him by the cashier. From these he is able to keep his ledger

accounts of each organizational transaction and prepare monthly statements of the accounts for each activity. He further has the duty of auditing the treasurers' books and selecting students to assist in the bank program.

The sponsors guide and help the organization and treasurer of the organization in financial management.

The disadvantages of this particular system are that due to its complex structure it takes much of the faculty's time; however, if it is serving an educational purpose, that time may be well spent. Also, since no permit for purchases is required, it is possible to contract debts beyond the supervision of the school. This objection can be answered by a question: In what type of democratic system with student participation is this not possible?

The budget system consists of a student-faculty committee which meets to plan a budget to incorporate all of the school organizations. Each activity treasurer keeps books for his organization; however, all bills are presented to the high school for payment, but the deposits are made by the individual organizations in their own bank accounts. When purchases are made, a numbered purchase slip stating the purchase and signed by the purchaser, treasurer, and principal is presented to the merchant. When the goods are received, it is receipted on the back by the purchaser and left with the merchant to turn back to the school for payment.

This particular system is weak in its loose business methods of handling funds and generally poor records kept in the organization. By certain modifications, this system could be very effective and efficient.

The third is the accountant voucher system which has an accountant, activity treasurers, and sponsors. Each activity treasurer keeps a cash book for his organization and turns over all money received to the accountant receiving a receipt for it. He also fills out an order to pay in duplicate which is approved by the sponsor, and then keeping one copy, he gives the other to the accountant who pays all bills by check.

The accountant receives all funds which he deposits in an approved bank and pays all bills. He also makes vouchers for all receipts and expenditures and keeps the accounting records which permit auditing. Periodically he prepares a financial statement so that each treasurer can check his account.

This system permits very little business practice for the students and also permits purchases without verification.

It can readily be seen that the triplicate system, although elaborate, checks best against the criteria of a good educational accounting system.

An indictment of present day accounting practices has been made by the previously mentioned finance committee report:

Apart from total figures it is practically impossible to make valid comparisons of school receipts and expenditures among states or a selected group of local school systems. Even the totals of receipts and expenditures reported are sometimes questionable. Much vitally needed information of the financial affairs of school systems cannot be obtained under present accounting practices.

Many of the financial records kept on public education today seem to be of little value. There is too little understanding of the kind of financial information needed and what can be done with the right kind of financial data.

Practically all of the financial accounting for schools is at present on a cash basis. There is belief in some quarters that financial accounting for schools should be on an accrual basis.

There seems to be a real question as to whether school accounts should be kept by function or by object.¹

The indictment continues:

Absence of, or deficiency in, documents supporting the receipt of revenues or giving evidence of a financial commitment impair financial accounting. Similarly absence of, and deficiencies in, books of original entry, such as a receipt register and a voucher register, in many instances make sound accounting impossible.²

General Recommendations

As has been previously mentioned, the more progressive schools, recognizing the educational values to be

¹"Some Problems and Issues in Public School Finance," op. cit., p. 39.

²Ibid., p. 40.

gained by student participation in the financial accounting procedures in the school, are adopting this type of accounting procedure. An advocated method of this process will be given later, but in this unit will be found a discussion of the practices, forms, and records which are recommended by accounting authorities.

It is generally recognized that the heart of the financial program of any internal accounting in which students participate is the development of sound budgetary practices. This is emphasized by Stout:

The literature on the subject reveals that only a minority of the schools have a budget and of these many need improvement. Most high school administrators either do not realize or choose to ignore the fact that the effectiveness of good administration of the extra-class activities in their schools is directly related to the quality of budgetary administration.¹

Engelhardt also says:

Annual budgetary statements should be required of all spending agencies in the school system. A requirement of this kind is important in the administration of the schools and important in the training of the students who are associated in the management of the extra-curricular activities. The same requirement should be applied to lunch rooms and book rooms which are not centrally controlled. Even though the public does not provide all the funds to maintain the various activities which are operated or maintained by the student bodies in the school, the board of education should be familiar with the condition. The budgets of the internal activities should be uniformly prepared in all schools. They should show the tentative plans, the contemplated expenditures, and the sources and amounts of income anticipated. All

¹ Stout, op. cit., p. 99.

extra-curricular activities should be operated on a budgetary plan.¹

The budget consists of three parts: (1) the working plan which is an expression of the philosophy and policy of the activity and complete internally financed program; (2) the plan for spending to accomplish the goals and objectives set forth in the work plan; (3) the plan for financing the proposed expenditures with stated means of meeting the costs.

Under budgetary operation certain guide posts are offered by Engelhardt and Engelhardt:

1. The budget is not a watch dog of the treasury.
2. The budget cannot be substituted for good administration.
3. The budget will be as good as the executive makes it.
4. The budget improves as administration improves.
5. The budget should not be discarded because of failure to use it advantageously.
6. Responsibility should not be placed in the budget.
7. The budget should not be followed blindly.
8. Judgment should be used. Remember the budget is based on estimate.
9. The budget should not be allowed to run the school and kill initiative.²

¹Engelhardt, op. cit., p. 490.

²Engelhardt and Engelhardt, op. cit., p. 553.

The aim of the school should be to arrange the situation so that the pupil by living consciously in a scheme of budgeted finances, will form the habit and develop the skills necessary for such living, and do this with such satisfaction that he will be intelligent financially so far as budgets are concerned now and in later life.¹

It is quite conceivable that all money necessary to operate the internal program will not be available, and it will not permit all budgetary requests to be fulfilled. In this event, some system will be necessary to fairly allocate funds available. In Stout's study which included five hundred and forty-three schools of which three hundred and thirty-two were small schools with enrollments of less than one hundred pupils, the information found in table twelve was obtained (only information pertinent to the small school is here presented).

TABLE 12
THE METHODS USED
BY IOWA HIGH SCHOOLS IN ALLOCATING
EXTRA-CLASS ACTIVITY FUNDS*

Methods	No.	Pct.
Schools using "percentage" plan of allotment	9	14
Schools using "lump sum" plan of allotment	22	34
Schools allotting all money needed	42	65

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 118.

¹Elbert K. Fretwell, Extra-Curricular Activities in Secondary Schools, p. 469. Boston: Houghton Mifflin Company, 1931.

The percentage plan means that only the percent of the amount available compared to the amount needed to fill the complete requirement is computed and this percentage allocated to each activity. The lump sum plan is one in which the controlling individual or group allocates an amount to each activity after considering the needs of the activity and the funds available.

In building the budget, four steps are followed:

1. Preparation
2. Presentation and adoption
3. Administration
4. Appraisal¹

TABLE 13

THOSE HAVING A PART IN BUILDING THE GENERAL
BUDGET IN IOWA HIGH SCHOOLS
IN 1941-1942*

Personnel	No.	Pct.
Superintendent	65	100
Principal	26	40
Activity sponsors	26	40
Students	35	54
Board members	12	18
Assistant principal	3	5
Classroom teachers	31	32
Schools responding	65	

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 129.

¹Stout, op. cit., p. 125.

The reason for a percent greater than one hundred is that several of those listed might participate in the building program.

The formal budget should be prepared in standardized form as soon as possible and show in detail how the anticipated income is to be raised and justify all expenditures for which a request is made. After the budget has been presented to the group and approved, it immediately comes under the fourth step of appraisal. It should be under constant observation and criticism, and as its strengths and weaknesses are brought out, the budget should be studiously revised and incorporated into the budget for the following year.

The implementation of the budgetary program necessitates a central organization with a central depository.

Fowlkes advances the following organization:

After the central treasurer has been appointed, a faculty advisor or sponsor for each specific activity should be appointed by the principal. This faculty sponsor should check all receipts and approve all bills for the activity involved. After the faculty sponsor for an activity has been appointed, a student treasurer for the activity should be elected by the student members of the organization controlling the activity. It is customary to have an athletic association governing all athletic activities whereby a single student acts as treasurer for all athletics and the various coaches serve as sponsors for the various sports such as football, basketball, etc. Careful records should be kept of each game, performance, or program by the student treasurer and faculty sponsor and forwarded to the central treasurer.¹

¹Fowlkes, op. cit., p. 128.

The California system offers the following rules of procedure:

1. No obligations are to be incurred which cannot be liquidated within the school year.
2. Separate accounts are to be kept of the three funds mentioned above (education funds, trust funds, student body funds).
3. All money collected must be deposited with the student treasurer daily and by him in the local bank daily. Prenumbered receipts in duplicate form are to be issued. All funds collected shall be deposited in the local bank in the name of the student body and subject to the check of the principal or his agent. All checking accounts with a daily balance of over \$500 shall be placed in a special savings account. All bills are to be paid by voucher checks.
4. No one shall obligate the student body in any way without having first obtained proper written authority.
5. Proper inventories of all supplies and equipment must be kept.
6. Purchase orders must be used and all invoices checked for price, quantity, and quality. Schools should avail themselves of cash discounts.
7. There shall be cooperative buying for all student bodies.
8. Students working for the student body are not to be paid in cash.
9. All student bodies are to carry fire, burglary, hold-up, workmen's compensation, and fidelity insurance.
10. Schools shall operate on a budget basis.
11. Trial balances are to be prepared and available at the tenth of each month.
12. Copies of the annual audit will be sent to the principal of each school and the superintendent in charge.

13. The school should work as a unit. The idea of each department working for its own benefit is to be discouraged.¹

Stout has made the following analysis concerning centralized plans in his study:

1. A specially qualified and bonded member of the faculty who acts as general treasurer. It is his duty to keep the money collected by all pupil treasurers and to disburse it upon proper authorization.
2. A single bank account for the entire school, subject only to the order of the general treasurer.
3. Monthly statements rendered by the general treasurer to all organizations showing the status of their account on his books.
4. Periodical publication of the audits of the books of the general treasurer.
5. A suitable system of accounting to which all are trained to conform under the supervision of the general treasurer.
6. Pupil treasurer for each organization whose duties include collecting funds, depositing them with the general treasurer, presenting properly signed requisitions, and keeping the books prescribed by his organization.²

Table fourteen, from Stout's study, reveals the degree to which advisable practices were implemented in the state of Iowa.

Adequate records are necessary in any type of accounting program so that the aims and objectives previously discussed

¹"Rules for Conducting Student Body Finances," Bulletin No. 140, Los Angeles City School District, California, 1926, 9-10.

²Stout, op. cit., p. 140.

TABLE 14

THE USE OF A GENERAL FUND IN IOWA HIGH SCHOOLS*

Questions	Number of Schools Responding	Number Responding "Yes"	Per Cent Responding "Yes"
Did you have a general fund into which all money went and from which all expenses were paid?	543	424	78
Was the control of the acquisition and distribution of activity funds under the direct supervision of a faculty member?	512	507	99
Did the general fund subsidize activities which were not self-supporting?	425	305	72
Did the general fund contribute to organizations that were self-supporting?	386	109	28
Did all unexpended money revert to the general fund at the end of the year?	386	164	43

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 143.

may be realized. There are two divisions in accounting, receipts and expenditures; therefore, for purposes of clarity and facility, the records will be discussed in these divisions.

Accounting is done with forms which consist of the following:

1. Cash receipts
2. Cash book
3. Ledger
4. Bank pass book
5. Requisition
6. Purchase order (includes a receiving copy, a vendor's copy, a requisitioner's copy, and a bookkeeper's copy)
7. Voucher check
8. Stores and equipment record
9. Sales-control record
10. Loan of equipment
11. Ticket receipt
12. Sales record
13. Locker receipt
14. Sales record of secondhand books
15. Bookstore inventory
16. Lunch-room inventory
17. Trial-balance sheet¹

Fowlkes advocates four essential forms:

1. Voucher
2. Voucher index card--record of transactions with each vendor

¹Forms used in the Detroit, Mich., schools.

3. Voucher register--book of original entry

4. Distribution ledger¹

The procedure followed by Fowlkes is not necessarily restricted to use only with his forms.

. . . the general record, the individual activity record, the voucher register, and the receipt book of the central treasurer should be kept by the central treasurer. The faculty sponsor of each activity, with the student treasurer involved, should make duplicate copies of individual game, performance or program record for each game, program, or performance. If desirable, each faculty sponsor may also keep the individual activity record for the particular activity involved. Each student treasurer should have a payment order book, and expenditures should be made by the central treasurer, only on the presentation of a payment order properly executed. In numbering payment orders, care should be taken to place the code letter of the activity before the payment order number, thus avoiding confusion in payment order numbers and in posting.²

It has been suggested by Peel that the cash book, in which is recorded monthly receipts and monthly payments, be a combination of the cash receipts register and the warrant register which it actually is whether or not that name is given to it. Then from the other two books of original entry, the journal, which relates money and inventory with adjusting entries, and the invoice register, which shows monthly liabilities, entries are made in the general ledger which relates all financial transactions in a permanent record.³ Peel continues:

¹Fowlkes, op. cit., p. 108.

²Ibid., p. 128.

³Arthur J. Peel, Simplified School Accounting. Milwaukee: The Bruce Publishing Co., 1925.

It is possible that a question may be raised as to why no provision has been made on the cash register, for deposits to bank accounts. This is a pertinent question and gives the writer the opportunity of advancing a principle which in his estimation should be strictly adhered to by all school boards and committees, which is, that all funds should be placed in a bank, or banks, and that all payments should be by check. If this practice is faithfully adhered to, the difference between the receipts and disbursements, as reflected by the cash register and the check, or warrant, register, plus outstanding checks which have not been presented, will agree with the bank statement.¹

In surveying the accounting procedures in Iowa, Stout found the following usage of accounting forms:

TABLE 15

THE KIND OF BOOKKEEPING SYSTEM
USED BY IOWA HIGH SCHOOLS IN 1941-1942*

System	No.	Pct.
Journal-ledger	118	39
Ledger	116	38
Journal	68	23
Schools responding	302	91

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 199.

It should be remembered that there should be a close relationship between the budget and accounting procedures. The budget estimate should be carried along to

¹Ibid., p. 59.

TABLE 16

THE SUPPLEMENTARY BOOKKEEPING DEVICES USED BY
IOWA HIGH SCHOOLS IN 1941-1942*

Devices	No.	Pot.
Check book	282	85
Receipt book	172	52
Financial statement	110	33
Requisition	33	10
Pay order book	34	10
Order blank	35	11
Voucher check	33	10

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 201.

each activity page, for as Stout says, this:

1. Makes historical record complete.
2. Authorizes expenditures.
3. Helps to control expenditures.
4. Helps encumbering the funds.
5. Helps in preparing periodic reports.
6. Aids in auditing the books.¹

Another rule to follow is to bank every day. This applies not only to each activity banking in the school bank but also to the school which should bank every day in the central depository to prevent loss of funds.

¹Stout, op. cit., p. 174.

One of the first things to examine in evaluating a system of accounting is the method by which purchases are made. If the system is really sound, they will be made only after an officer of an organization has filled out a requisition which has been signed by the sponsor and countersigned by the central treasurer. The central treasurer will then issue a purchase order in triplicate--one copy for his own use, one for the merchant from whom the purchase is to be made, and one for the organization making the purchase.¹

TABLE 17
THE USE OF REQUISITIONS BY
IOWA HIGH SCHOOLS*

Questions	Number of Schools Responding	Number Responding "Yes"	Per Cent Responding "Yes"
Was a properly signed requisition necessary before merchandise or other bills could be contracted against the funds of the student body or any organization?	355	196	55
Was a properly signed requisition attached to sales slip required before any bill was presented against the activity funds?	309	126	41
Did each organization expenditure have to be approved by the faculty sponsor of the organization?	466	437	94
Was a method provided for keeping a record of contractual liabilities by the central treasurer?	325	121	37

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 181.

¹Ibid., p. 176.

The first question was asked with one hundred ninety small schools responding, but only forty-three per cent (eighty-one) answered in the affirmative.¹

After the requisition has been presented and allowed, there are two ways in which they can be paid, either by check or by cash; however, it is generally agreed that payment by check is by far the better method because of the record of the payment which is possible and particularly with a voucher check. When the question was asked, it was found that " . . . one hundred eighty-nine (fifty-seven per cent) of the small schools . . . paid their bills entirely by check."²

The cash book offers a chronological record of all funds received and disbursed by the central treasurer. The data for the cash book are taken from the original forms of receipts and vouchers.

The journal provides a record of all entries other than cash such as loans and memoranda items and inventory adjustments.

The ledger consists of two divisions, credit side in which entry is made from the invoice and debit side in which entry is made from the voucher when paid. In the ledger are kept all accounts with companies arranged

¹Ibid., p. 178.

²Ibid., p. 184.

alphabetically for each activity in school. Information is entered from the cashbook and the journal.

The procedure to follow with these three accounting forms is:

1. Post all items from the receipt side of the cashbook to the credit of the account which made the deposit.
2. Post all items from the disbursement side of the cashbook to the debit side of the activity account from which the funds were expended.
3. See that all items from the journal are posted according to the nature of the entry.
4. After an entry has been posted, be sure to enter in the ledger folio column of the book of original entry, cashbook, or journal, the page to which the entry is carried in the ledger. Likewise, enter in the ledger folio column of the ledger account, the page of the book of original entry from which the entry was posted.

The voucher check is a regular bank check with attached sheet for the listing and pricing of goods to be purchased or paid for.

The purchase order blank provides a record of orders not only for the activity but also for the central treasurer and the vendor.

"Regardless of the size of school, some form of requisition blank should be included in the accounting system." ¹
This will be discussed in the next chapter.

The cash receipt should be made out in duplicate with one to the individual and the other for the receiver

¹Ibid., p. 195.

of the money. A similar receipt can be used for the central treasurer.

A deposit slip is to be used for depositing with the central treasurer with the amount being posted to the cash journal. The central treasurer also uses a deposit slip when depositing in the bank or other central depository.

A pay order used for requesting payment is a more exact means of checking on the expenditures of an organization.

The general report of the central treasurer should be made periodically to all organizations. It should be checked carefully for correctness and arrangement and show the financial standing of each organization separately.

Under the system of student participation, each student treasurer should keep accurate records of his or her activity and should check them against the periodic report of the central treasurer.

Jurisdiction and Control by the State Department

Legally the state department has no jurisdiction over the internal accounts of a school because as the title suggests, it is financed internally, with the school. It is recommended that these accounts be handled through a revolving account in which manner it is possible to give a complete accounting to the board of education; however, other methods also permit giving the board of education a complete accounting and should be done.

The laws of Iowa authorize boards of education to purchase textbooks and supplies and to resell them to pupils at cost, or to rent textbooks at an agreed rental. A considerable number of school districts are engaged in transactions of this sort and pay out or advance funds, all or part of which are to be returned later, as funds are received from the sale or rental of materials.¹

From this it can readily be seen that the legislation is entirely permissive, and, therefore, no regulations can be enforced until the laws become directive.

Advocated Method of Accounting

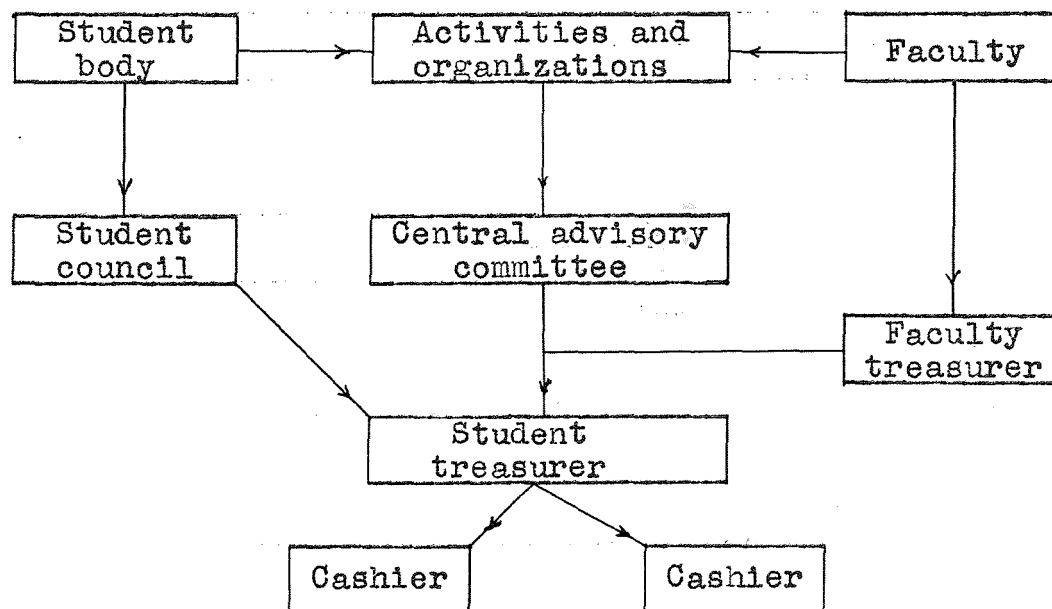
In setting up a particular method to be used in small high schools, various things must be considered. First, the forms and procedures established must produce a minimum of administrative friction and irritation. It must combine adequacy with simplicity which "is necessary in view of the fact that a large percentage of the school clerks are untrained in financial accounting procedure."² Secondly, the information must be sufficiently complete and detailed to furnish at any particular time any financial information desired with a minimum amount of difficulty. Thirdly, the records must be cumulative permitting comparisons and cross checks whenever desired. Finally, it must serve an educational purpose and have an educational value, which means that the students must be allowed to participate.

¹"Management of Revolving Accounts," op. cit., p. 2.

²Reeder, op. cit., p. 97.

The needs of the modern community demand a good accounting system in the high schools where students actually participate in the handling of funds. Under the present social organization there are thousands of treasurers needed to care for the funds of public and private organizations of the county.¹

Each activity or group organization elects a student treasurer who along with the activity sponsor makes up the central advisory committee. Under direct control of this central committee is the central depository or school bank which has a faculty treasurer. To assist the central treasurer, is a student assistant treasurer elected by the student body. This student could be the treasurer of the student council. Under the assistant treasurer are two or more cashiers appointed by the student council. A diagram of the organization would appear as follows:



¹Stout, op. cit., p. 214.

This can further be clarified by enumeration of the duties of the various elements making up this particular system.

1. Duties of the activity treasurers
 - a. Complete the budget for his particular activity for the year.
 - b. Present budget to his group for discussion and approval.
 - c. Revise budget according to wishes of the group.
 - d. Represents his group in the central committee.
 - e. Keeps financial records of his organization.
 - f. Transacts all organizational business with the central bank.
 - g. Receives and receipts all money within the organization.
2. Duties of the organization sponsor
 - a. Guide and aid the group in budget consideration.
 - b. Approve all expenditures and requisitions.
 - c. Guide and aid the organizational treasurer in financial management.
3. Duties of the central advisory committee
 - a. Collectively approve budgets of all organizations.
 - b. Compile a composite budget for all activities and groups.
 - c. Allocate available funds.
 - d. Supervise operation of the bank.
4. Duties of the student treasurer
 - a. Is responsible for the operation of the school bank.
 - b. Makes all deposits in the approved depository.
 - c. Keeps composite books of all funds entering and leaving school bank.
 - d. Presents monthly reports of financial accounts to each organization.
5. Duties of the cashiers
 - a. Receive all deposits from organization treasurers.
 - b. Check all deposits against deposit slips.
6. Duties of the faculty treasurer
 - a. Guide and aid the student treasurer in keeping accounting records.
 - b. Authorize and sign all checks or vouchers.

- c. Assume complete responsibility for all internal funds.

The various forms which will permit this program to be carried out adequately might also help to clarify some of the duties as previously mentioned.

The receipt given by the activity treasurer is to be filled in in duplicate with the original being given to the individual paying the money and duplicate being kept by the treasurer.¹

To facilitate the checking of amount and recording of same, the deposit slip could be used by the activity treasurers.² It is to be filled in in duplicate with the original going to the school bank and the other remaining with the organization treasurer. The deposit slips should be taken to the central bank where they are checked and countersigned by the cashiers. At the conclusion of the banking period, the cashiers fill in a similar deposit slip and present it to the student treasurer for checking and signature. The money and original are kept by the student treasurer who then prepares a standard bank deposit slip and daily deposits money in the approved depository. The organization's treasurer's deposit slip total should equal the total of the individual receipts, and the cashier's

¹See Appendix, p. 89.

²See Appendix, p. 89.

total should equal the total of the individual deposit slips. From the cashier's deposit slip entries can be made directly in the cashbook.

All receipts will not be from individuals, however, for some will be from admission charges, candy sales, and the like. To facilitate in reporting and recording this type of account, the activity summary report, made out in duplicate, is used.¹ This type of report permits a complete financial summary of the event. From this report a deposit slip is made out and, along with the original activity summary, is filed with the central treasurer.

From the preceding report it can be seen that a pay order is necessary.² The order for payment blanks is to be obtained at the school bank in order to keep consecutive numbers. The lower right hand corner is filled in by the central faculty treasurer, who has the responsibility of signing all checks, when the check has been signed. This form is completed in duplicate and both copies are presented to the cashier who presents them to the central treasurer. After the check has been made out, it is returned with the duplicate payment order to the organization treasurer who makes the payment. The original is kept as a part of the central records.

¹See Appendix, p. 90.

²See Appendix, p. 91.

Only one other financial form is necessary for the organization treasurers, and that is the individual treasurer's financial record.¹ It is self-explanatory.

The records of the central treasurer must necessarily be more complete. The first requisite is a cashbook.²

As has been previously stated, a journal is used to record other than cash items.³

The final record of permanency which is the culmination for which all of these records are prepared is the ledger account which has two divisions, one for each company with which business is done arranged alphabetically, the other for each group or activity in the school.⁴ Each company is credited from the invoice and debited from the check when paid.

The integrated use of these three records is as follows:

1. Post all items from the receipt side of the cashbook to the credit of the account which made the deposit.
2. Post all items from the disbursement side of the cashbook to the debit side of the activity account from which the funds were expended.

¹See Appendix, p. 92.

²See Appendix, p. 93.

³See Appendix, p. 94.

⁴See Appendix, pp. 94-95.

3. See that all items from the journal are posted according to the nature of the entry.
4. After an entry has been posted be sure to enter in the ledger folio column of the book of original entry, cashbook or journal, the page to which the entry is carried in the ledger. Likewise, enter in the ledger folio column of the ledger account, the page of the book of original entry from which the entry was posted.

There is one other record which will prove very useful when information is quickly desired, and rather than look back through many deposit slips or check stubs, it is far better to have the information chronologically entered in a deposit and voucher register.¹

Specialized Accounts

The number of specialized accounts in schools has increased in recent years, but the actual accounting done in the school follows the same procedures and utilizes the same forms and records as do the other accounts. If more records are necessary, then the accounting system breaks down and is inadequate, and a new system should be devised. It is not necessary to change the accounting records of the system, but it must be recognized that a greater number of specialized forms which are self-explanatory are sent out by the state department to be completed for purposes of obtaining financial aid for the various programs.

¹See Appendix, p. 96.

Audits Required or Recommended

Preliminary to the audits are the regularly submitted reports to the various organizations within the school and to the board of education. This is an essential part of the accounting procedure, as it is the culmination for which all records are kept. Grange has made this statement in his study:

Schools not in favor of written reports for the students believed that a written report to the school board once a month was sufficient in reporting the use of the funds. Other schools reported that to operate the activity plan successfully the administration should work out the distribution of the funds as it sees fit and should not be hampered by any bickering and quarreling of the student body. . . . There is the probability that those administrators not desiring to give a regular report to the students are the ones who are unable to do so because they, themselves, do not know how the accounts stand.¹

Grange also makes the report given here in table seventeen.

TABLE 17

SCHOOLS GIVING A FINANCIAL STATEMENT OF THE ACTIVITY FUNDS USED TO STUDENTS*

Schools	No.	Pct.
Giving statements regularly	27	43.0
Giving statements when asked for	20	32.0
Not giving statements regularly	16	25.0

*Harry L. Grange, "The Administration of the Activity Program in Iowa Secondary Schools In Cities with over Two Thousand Population." Unpublished Master's thesis, Department of Education, Drake University, 1942, 31.

¹Grange, op. cit., p. 30.

Holmgren offers the following information:

One of the important findings of the questionnaire was the fact that most schools do not give the students a complete account of the activity fund money. This is tragic, although not surprising, considering the unorthodox accounting procedures used in most of the schools to which this questionnaire was sent.¹

In a report by the American Council on Education is stated:

As a first and fundamental step in avoiding revenue leaks, every school system must provide an accounting procedure which will show every item of revenue received and every item of revenue expended. Likewise, provision should be made for periodic audits of all receipts and expenditures in order that the fidelity of school officials and employees to their trust will be guaranteed.²

Auditing is a process of examination and verification. . . . Internal auditing should be performed by the administrative staffs of local school systems which are authorized to perform this function along with various other duties of business and financial management. Internal auditing demands two types of audits, namely, the preaudit, and the continuing audit. Pre-audits by outside agencies, except as they relate to the legality, authorization and balances available to make payment, are not conducive to good expenditure management. Such preaudits deprive management of its chief function, finding ways and means to achieve the objectives with the minimum outlay of resources.³

To be of the most value in management the preaudit should conform to the following three principles:

1. Each item of expenditure should be approved beforehand by the chief executive or his deputy,

¹Holmgren, op. cit., p. 28.

²Research Problems in School Finance, op. cit., p. 56.

³"Some Problems and Issues in Public School Finance," op. cit., p. 43.

after making certain that the item has educational value, that it is needed more than other items, that it is legal and conforms to the policies of the system, that it is suited to the use to be made of it, that it is economical, and that there are unencumbered funds available to pay for it.

2. All commitments should be considered in relation to other needs. Is this item needed more at this time than some other item? Management should keep a list of needs and not make any outlay unless it is near the top of the list, ranked according to urgency or importance.
3. Commitments should not be made without due consideration to (a) future expenditures (maintenance, repairs, operation, and service) and (b) effects upon other expenditures.¹

"Good management demands a continuing audit. Monthly financial statements or special periodic reports resulting from special audits are essential characteristics of good internal auditing."²

Concerning special periodic reports, annually or semi-annually, the following guiding principles can be set forth:

1. Build the report gradually.
2. Make the reports accurate.
3. Adhere to your objectives.
4. Write for your reader audience.
5. Be objective.

¹Arvid J. Burke, Financing Public Schools in the United States, p. 552. New York: Harper and Bros., 1951.

²"Some Problems and Issues in Public School Finance," op. cit., p. 45.

6. Use graphic and visual presentation.
7. Anticipate and answer objections.
8. Report must represent the activity.
9. The report must give complete information.¹

Grange gives an example of a very simple weekly report but which adequately informs the organization treasurers of their financial standing and giving them an opportunity to check their books.²

An adequate monthly report should show:

1. Total receipts and expenditures of activity funds.
2. Amount remaining in each fund.
3. Amount set aside by the budget committee.
4. The amount spent by each organization.
5. The amount of money on hand for each organization.
6. Statement that figures are correct and all funds deposited and disbursed according to rules of the system.

The form suggested by the writer for use in making periodic reports incorporates the above suggestions.³

When the question, "Was the general activity fund audited during the year?" was asked of three hundred four small schools in Iowa, one hundred and fifty-nine or only

¹Ibid., p. 48.

²See Appendix, p. 97.

³See Appendix, p. 98.

fifty per cent of them answered "yes."¹ Then to show the distribution of financial statements, Stout presented table eighteen.

TABLE 18

IOWA HIGH SCHOOLS IN WHICH FINANCIAL STATEMENTS
WERE FURNISHED TO THE FOLLOWING
BY THE CENTRAL TREASURER*

(Statements to Whom Furnished)	No.	Pct.
School board	173	64
Superintendent	81	30
Each organization	44	16
Principal	7	3
Schools having a central treasurer	268	

*Minard W. Stout, "Administration of Extra-Class Activity Finances in Public High Schools in Iowa." Unpublished Doctor's thesis, Department of Education, University of Iowa, 1943, 255.

It can well be assumed that all four of the above should receive financial reports of the internal accounts.

When the audits are made, if the accounting has been done properly and correctly, the following should be true:

1. The cash book balance will equal amount of money in the bank shown on the pass book and checkbook, sum of all balances of all ledger accounts, and sum of the balances of all activity treasurers' books.
2. The cash deposits will equal sum of central treasurer's receipts given to the organization treasurers.

¹Stout, op. cit., p. 256.

3. The cash disbursements will equal sum of paid invoices discussed in Chapter V with purchasing requisitions attached, and sum of paid purchasing requisitions held by the organization treasurers.
4. The balance of the organization treasurer's books will equal balance of activity account in the ledger (total income is equal to central treasurer's receipts,--total disbursements equal total of paid purchasing requisitions).
5. Every journal entry is accounted for by memorandum slip held by central treasurer.
6. Ledger will show balance of each individual account equal to organization treasurer's books, balance of all ledger accounts is equal to total of all activity treasurers' bank balances, and balances of all ledger accounts equal cashbook balances.

CHAPTER V

ACCOUNTING FOR SUPPLIES AND EQUIPMENT

General Recommendations

Supply rooms and the handling and distribution of supplies is an even more deplorable condition than the management of the internal financial accounts. It is not a very great exaggeration to say that there are as many varied methods of supply accounting as there are schools.

The supplies and equipment in a school represent public money spent and should be accounted for as diligently and accurately as should be finances. Fowlkes has stated:

When we speak of accounting, we generally think in terms of financial accounting; however, much of the money which must be accounted for is used to purchase or pay for equipment or supplies. The superintendent then becomes responsible for these goods just as he is responsible for the results received for the monies paid out in salaries and services.¹

Great care should be accorded the selection and storage of materials. Mort and Reusser suggest certain criteria to be met in storing these supplies to protect the money that is represented:

1. Storeroom should be clean.
2. Storeroom should be dry.

¹Fowlkes, op. cit., p. 145.

3. Storeroom should be fireproof.
4. Storeroom should be accessible to all.¹

Mort and Reusser also provide criteria to be met in the selection of supplies which should be done keeping in mind:

1. The curricular offerings of the school.
2. The methods of presentation and the use to be carried on in each of the subject fields.
3. Simplicity and ease of use of the materials and supplies.
4. Uniformity of quality and economy in use.²

It is important to remember that greater savings can be realized if a minimization of variety in materials is carried out, but this should not be allowed to interfere with the curricular offerings of the school. Wise selection is extremely important. This particular aspect is emphasized in a set of criteria suggested by Heilbron:

1. Economy: The lowest cost consistent with quality and utilization.
2. Quality: Equipment which in its materials, construction, and workmanship gives evidence of strength and durability.
3. Utilization: The value of equipment with reference to its particular use in which the cost and results to be secured are largely involved.
4. Educational Value: It shall, in the greatest degree possible, contribute to the educational program.

¹Paul R. Mort and Walter C. Reusser, Public School Finance, p. 319. New York: McGraw-Hill Book Company, Inc., 1941.

²Ibid., p. 313.

5. Standardization: The recognition of certain essential specifications in equipment materials and design which will make for some uniformity as to construction, without necessarily determining the specific brand or make.
6. Reliability and Integrity of the Vendor: The standing of the manufacturer of a product as well as his agent with regard to financial stability, dependability, and the proper attitude toward the product.
7. Servicing: Ability of the vendor to service his product.
8. Repair and Replacement: Economy and long life factors through the servicing which may be done by the maintenance department of the school.
9. Effect on Other Equipment: The wear upon or injury to other equipment incident to the use of a product.
10. Safeguards: The protection of funds through specific and clearly worded contracts and agreements.¹

In order to accomplish the safe and efficient handling of supplies and equipment, it is necessary to maintain an adequate system of records. McLeese has made the following statement relative to accounting for the book rentals in a school which can be applied to all materials and supplies:

In the mind of the writer, the criteria of a good system of accounting for the book rental fund of the Hawkeye school were: brevity, comprehensiveness, inclusiveness, and accuracy. It should be brief, so as not to take too much of the superintendent's time. It should be simple enough that it would be easily understood by members of the Board of Education or any interested party. It should include everything that is

¹Richard Heilbron, "Selecting School Equipment," School Executives Magazine, (May, 1932), 390, cited by Ibid., p. 313.

necessary for accurate accounting, but without a great deal of repetition. It should be accurate, so that there would be no opportunity for shortages or suspected shortages to occur.¹

Fowlkes has also stated:

When school boards inquire as to the financial picture of the school, they do not get a true picture unless they also inquire into the inventories of the school. In order to provide this information relating money and materials, the superintendent must have extensive and accurate records and methods of internal accounting.

This type of accounting can be carried out only if there is a complete list of equipment (articles which are not consumed by a year's use). There also should be a list of materials and supplies (articles which are ordinarily consumed within one year).

To account for materials, supplies, books, and equipment, a continuous record must be kept showing stock on hand at the beginning of the year, quantity purchased during year, quantity issued during year, quantity returned to store room at end of year and the quantity on hand at end of year.

In order to provide a financial statement, it is necessary that such inventories be available and accurate or a true picture of the financial status of the school will not be correct.²

Stout also has something to say concerning inventories:

Another way for the extra-class activity program to lose money is through the loss of equipment. One of the best ways of keeping this under control is to make an accurate inventory of all equipment each year.³

Advocated Method of Accounting

After the discussion in the previous section, it still remains a difficult problem to find any system in

¹McLeese, op. cit., p. 3.

²Fowlkes, op. cit., p. 145.

³Stout, op. cit., p. 211.

the smaller schools where it is done according to established procedures.

Before any item can become a part of an inventory it must first be purchased to supply some expressed need. At this point it is necessary to have a form of requisition.¹ This form can serve a dual purpose in that it can be used for any type of request either from the storeroom or for new order. They are to be completed in triplicate, one for the central office, one for the teacher, and one for the supply room, except when it is an order for new materials, then it will be filled in in quadruplicate with the same distribution, and the extra copy to be used as an order sent in to the vendor. When the materials have been received, a check (✓) is placed in the column provided.

The procedure to follow with this particular form when ordering new supplies is as follows:

1. Teacher picks up blanks at the central storeroom. Forms are already numbered consecutively.
2. Teacher then fills in the form with the request.
3. The form is taken to the principal or superintendent, who keeps one copy for verification.
4. The teacher keeps one copy and returns two to the supply room manager who can be either a teacher or a qualified student.
5. One copy is then sent as an order to the vendor supplying the desired materials.

¹See Appendix, p. 99.

6. When the goods are received, the invoice is checked against the requisition remaining in the supply room, and the items checked off.
7. The supplies are then delivered to the teacher and the invoice is sent to the principal or superintendent to be checked against the statement in preparation for payment.

The procedure is similar for items already in the supply room, except that only one copy is returned to the supply room and the teacher receives the requested materials immediately.

As has been stated, no school should be without a continuous inventory. For this purpose, individual inventory cards for each different item in the stock room should be kept.¹ This form can be placed on five by eight cards and indexed according to classification, a list of which will be distributed to each teacher and posted in the supply room. These cards are to be completed daily by the stock room clerk from the requisitions received during the day. Weekly reports should be furnished the principal or superintendent in order that short supplies or materials may be ordered immediately to prevent their extinction within the school.² From the two columns, "quantity beginning of week" and "quantity end of week," the administrator will get some idea of the quantity used during that period; furthermore,

¹See Appendix, p. 100.

²See Appendix, p. 100.

if a teacher acts as stock room clerk, recommendations can be made in the "quantity to order" column, but if a student assumes this responsibility, the column can be used, along with the "date ordered" column, for notations and reminders by the administrator. It will not be necessary to complete the "purchased from" column unless the item is in need of reordering. This same report can be used at the conclusion of the school year for the individual teacher's inventory. The final two columns will substitute for the requisition forms. The blank in the title of the form is filled in with the period of time covered by the report.

CHAPTER VI

SUMMARY

The purpose of this study was to answer the questions arising from the implementation of methods and procedures to overcome the deficiencies evident in present day internal accounting.

The study was developed to show the need for good business practices in accounting for internal funds and also to utilize the educational opportunities for students inherent in this aspect of administration.

It was shown that the sources of funds were many and varied and not always following acceptable criteria for the procurement of funds. The amount of these funds was shown to be an amount equal to a large per cent of the general school budget.

In the presence of insufficient funds, it was suggested that moneys be made available by lumping all incomes in a central account or, ideally, budget for tax money to finance the activities in the school. At the present time activities are generally self-financing, although, potentially, the number of groups utilizing funds is greater than the number contributing to the internal accounts, but many of these activities are curtailed because they have no way

of self-finance. Some of these activities better fulfill the educational criterion than some of those with large self-financing potentialities.

Surplus is used in an inefficient manner akin to squandering to the educational detriment of the student. Deficits are also detrimental to the educational benefits to be derived from the activities and services offered. These inadequacies under the present plans and practices can be partially overcome by a system of central financing and budgeting.

Any system of accounting should be (1) simple, (2) adequate, and (3) standardized. Interpretations of these three were discussed and explained.

The various types of accounting were shown to vary from strict administrative control and dictation to complete independence from faculty supervision and guidance. It was also shown that the most prevalent bookkeeping system was the single entry combined with the cash basis of accounting because of its simplicity and understandability. Utilizing a method of student participation and teacher guidance, it was shown that of the three systems discussed the triplicate system best fulfilled the criteria of good educational accounting procedure.

The budget was discussed, and its operation explained, showing that it serves only as a guide and is not an arbitrary document from which there can be no deviation.

The records utilized in the implementation of any adequate accounting program were discussed along with the procedure followed in their use. It was also suggested that banking take place every day and all accounts be payable by check only. This is done to safeguard both funds and personnel.

It was shown that the State Department of Public Instruction has no direct jurisdiction over internal accounts.

A particular method and accompanying procedures were discussed, integrating the isolated procedures and forms into a comprehensive accounting program. It utilizes the budget system, central treasury, student participation under guidance with a minimization of red tape and records.

Periodic reports should be given frequently to all elements in the school who are in any manner connected with internal finances. The culmination of these reports and accounting procedures should be the annual audit.

The accounting for supplies and equipment is also a part of the internal accounting under the supervision of the administrator. This aspect of school administration is also in a deplorable condition because of the inadequacy or complete lack of records and procedure. It is stated that the inventories which should be kept should not only be for the present but also should be continuous.

The system advocated utilizes a minimum of records by permitting their use in more than one situation.

No supplies should be ordered or distributed from the stock room without a requisition. Furthermore, all goods received should be checked against the accompanying invoice.

APPENDIX

The forms hereafter presented have been referred to from previous pages in the study and are those used in the accounting for internal funds and equipment and supplies.

RECEIPT FOR FUNDS

No. _____	Date _____
Received from _____ \$ _____	
_____ Dollars	_____ Cents
for _____	
Signed _____	

DEPOSIT SLIP

No. _____	Date _____		
Activity _____			
	Source	Amount	
1			
2			
3			
11			
12			
	Total		

ACTIVITY SUMMARY

Activity _____

Date _____

Final Ticket No. _____		Receipts		Expenditures	
Initial Ticket No. _____					
No. Tickets Sold @ _____					
Final Ticket No. _____					
Initial Ticket No. _____					
No. Tickets Sold @ _____					
Pay Order Number	Explanation				
Total					
Organization Treasurer _____					
Sponsor _____					

ORDER FOR PAYMENT

No. _____

You are hereby authorized to issue a check to:

_____ for _____ Dollars _____ cents

for _____ to be charged to

the account of _____ (Activity)

Approved _____
(Sponsor)

Request fulfilled:

Date _____

Approved _____
(Activity treasurer)

Check No. _____

Signed _____
(Central treasurer)

[illegible]

CASHBOOK

[illegible][illegible]

JOURNAL

[illegible]

COMPANY LEDGER

[illegible]

ACTIVITY LEDGER

Activity _____										
Date	Explanation	Folio	Receipts							
			Item 1		Item 2		Item 3		Item 4	

School Year _____									
Disbursements									Balance
Item 1		Item 2		Item 3		Item 4		Item 5	

DEPOSITS AND VOUCHER REGISTER

[illegible]

WEEKLY REPORT OF SCHOOL ACTIVITIES*

Issued by Bookkeeping Department

_____ High School Activity Fund Balance Sheet,
Feb. 2, 1942

Acct. Titles	Old Bal.	Receipts	Payments	New Bal.
Ace	14.51	371.84	139.72	246.64
Adult Ed.	47.75	236.50	243.41	40.84
Athletics	242.52	2077.60	2054.44	265.58
Band	.49			.49
Class of '41	37.30		37.30	
Class of '42	78.85	181.92	112.31	148.46
Class of '43	28.80	134.50	60.94	102.36
Class of '44	16.85	26.03		42.28
Drama & Music	361.23	138.22	373.65	125.80
Films	56.92	201.00	164.27	90.65
GAA	7.70	54.58	52.12	10.16
General	10.53	700.22	713.55	2.80
Grade	147.63		95.24	52.39
Grade Health	36.50			36.50
Misc.	31.98	53.88	29.11	55.75
Typing	55.05	91.75	57.08	78.81
Taxes Payable		106.40	94.04	12.36
Totals	1163.60	4373.44	4227.18	1306.87

*Harry L. Grange, "The Administration of the Activity Program in Iowa Secondary Schools In Cities with over Two Thousand Population." Unpublished Master's thesis, Department of Education, Drake University, 1942, 55.

PERIODIC REPORT FORM

FINANCIAL REPORT						
For the period _____ to _____ Date _____						
Accounts	Brought Forward	Receipts	Expend.	Balance	Deficit	Budget Amount
Totals						
<p>Within my knowledge this report is an accurate compilation of information achieved according to the rules of the system.</p> <p>Signed _____</p> <p>Central treasurer</p>						

REQUISITION					
No. _____		Date _____			
_____ Grade		No. of Pupils _____			
The items below are needed by _____ Vendor _____ (date)					
Quantity on hand	Quantity needed	Items	(√)	Unit cost	Total cost

Teacher

Approved _____
 Superintendent

STOCK ROOM INVENTORY

Name of supply _____ No. of supply _____

Date	Teacher	Purpose for which used	Unit Price	Quantity purch.	Quantity withdr.	Quantity returned	Quantity on hand	Value

PERIODIC INVENTORY REPORT

_____ INVENTORY REPORT

Period covered _____ Date _____

Items	Purchased from	Quantity beginning of period	Quantity end of period	Unit cost	Value	Quantity to order	Date order

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